



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

March 9, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Remsen, Iowa and the Remsen Municipal Utilities (Utilities) for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported five findings for the City and five findings for the Utilities related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 12 of this report. The findings address issues such as a lack of segregation of duties, the lack of the City recording interest on certificates of deposit, City disbursements exceeding budgeted amounts and monthly City and Utility Clerk's reports not including a comparison of actual disbursements to budgeted disbursements. Sand provided the City and the Utility with recommendations to address each of the findings.

Three of the five findings discussed above for the City and the Utility are repeated from the prior year report. The City Council and the Utilities Board have a fiduciary responsibility to provide oversight of the City's and the Utility's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**CITY OF REMSEN AND
REMSSEN MUNICIPAL UTILITIES**

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019**

**City of Remsen and
Remsen Municipal Utilities**



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Rob Sand
Auditor of State

February 12, 2020

Officials of the City of Remsen and the Remsen Municipal Utilities
Remsen, Iowa

Dear Honorable Mayor, Members of the City Council and Utility Board Members:

I am pleased to submit to you the agreed-upon procedures report for the City of Remsen, Iowa, and the Remsen Municipal Utilities for the year ended June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Remsen and the Remsen Municipal Utilities throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large, looped "R" and a cursive "Sand".

Rob Sand
Auditor of State

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**City of Remsen and
Remsen Municipal Utilities**

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>City:</u>		
Joel Fisch	Mayor	Jan 2020
Mindy Klein	Council Member	Jan 2020
Dick Sievers	Council Member	Jan 2020
Josh Hill	Council Member	Jan 2022
Anna Cole-Nelson	Council Member	Jan 2022
Dave Sonnichsen	Council Member	Jan 2022
Rachel Keffeler	City Clerk	Indefinite
Barry Thompson	Attorney	Indefinite
<u>Utilities:</u>		
Dean Douvia	Board of Trustees	Jan 2020
Kim Keleher	Board of Trustees	Jan 2022
Lee Galles	Board of Trustees	Jan 2024
Chris Poeckes	Superintendent	Indefinite
Courtney Loutsch	Utility Clerk	Indefinite

**City of Remsen and
Remsen Municipal Utilities**



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor, Members of the City Council
and Members of the Utilities Board of Trustees:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Remsen and the Remsen Municipal Utilities (Utilities) for the period July 1, 2018 through June 30, 2019, including procedures related to the City's and Utilities' compliance with certain Code of Iowa requirements identified below. The City of Remsen's and the Utilities' management, which agreed to the performance of the procedures performed, are responsible for compliance with these requirements and for the City's and the Utilities' records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council and Utilities Board meeting minutes for compliance with Chapters 21, 372.13(6), 380 and 388 of the Code of Iowa.
2. We obtained an understanding of the City's and the Utilities' internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City's and the Utilities' financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council and the Utilities Board.
5. We scanned the City's and the Utilities' funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2019 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.

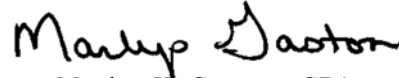
8. We scanned depository resolutions, the City's and Utilities' investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City and the Utilities. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above. The City's findings and recommendations are followed by the Utilities' findings and recommendations.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City and the Utilities, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City and the Utilities, including the City's and Utilities' compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Remsen and the Remsen Municipal Utilities during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is fluid and cursive, with the first name "Marlys" and last name "Gaston" clearly distinguishable.

Marlys K. Gaston, CPA
Deputy Auditor of State

February 12, 2020

Detailed Findings and Recommendations

City of Remsen and
Remsen Municipal Utilities

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

City:

- (A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – custody and detailed recordkeeping.
- (3) Long-term debt – recordkeeping and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Payroll – recordkeeping, preparing and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Investments – Investments were not recorded at current value because interest earned and added to the certificate of deposit balances was not recorded.

Recommendation – Interest on investments should be recorded timely.

- (C) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budget in the general government, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (D) Monthly City Clerk's Report – The City Clerk's monthly financial reports to the City Council did not include a comparison of actual disbursements to budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk's monthly reports to the City Council should include comparisons to the certified budget by function.

City of Remsen and
Remsen Municipal Utilities

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (E) Financial Reporting – Commercial/industrial tax replacement receipts totaling \$10,219 were incorrectly reported as property tax receipts rather than intergovernmental receipts.

Recommendation – The City should ensure all receipts are properly recorded and reported in the City's financial statements.

City of Remsen and
Remsen Municipal Utilities

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

Utilities:

- (A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Utilities' financial statements. Generally, one individual has control over each of the following areas for the Utilities:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – custody and detailed recordkeeping.
- (3) Long-term debt – recordkeeping and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings – While there was evidence of independent review of utility billings, collections, and delinquent accounts, the review was not completed timely.

Recommendation – Independent review of the reconciliations should be completed timely.

- (C) Land Purchase Payments to the City of Remsen – The Utilities pays the City of Remsen approximately \$31,000 each year to reimburse the City for the cost of land purchased as part of a 2009 water project. Neither the Utilities nor the City was able to locate a written agreement defining the terms of this reimbursement plan, including the amount to be reimbursed over time, the repayments and balance remaining.

Recommendation – The Utilities should work with the City to reduce to writing the terms of the reimbursement plan, including the amount to be reimbursed over time, the repayments made and balance remaining.

City of Remsen and
Remsen Municipal Utilities

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (D) Monthly Utility Clerk's Report – The Utility Clerk's monthly financial reports to the Utilities Board did not include a comparison of actual disbursements to budget.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget the Utility Clerk's monthly reports to the Utility Board should include comparisons to the certified budget.

- (E) Change Fund – The Utility maintains a change fund for which no authorization could be located.

Recommendation – The change fund should be formally authorized by the Utilities Board.

City of Remsen and
Remsen Municipal Utilities

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Brian R. Brustkern, CPA, Director
Alexia M. Grgurich, Staff Auditor
Nicholas J. Rustin, Staff Auditor
Mark W. Hart, Assistant Auditor